

T-87

TRIBAL AND INDIVIDUAL INDIAN MONIES TRUST FUNDS

Managed by the

U.S. DEPARTMENT OF THE INTERIOR

BUREAU OF INDIAN AFFAIRS

FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 1988

Together with Report of

INDEPENDENT PUBLIC ACCOUNTANTS

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March 23, 1989

Report of Independent Public Accountants

To the U.S. Department of the Interior
Bureau of Indian Affairs:

We have audited the accompanying statement of assets and trust fund balances of the Tribal and Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Bureau of Indian Affairs (the "Bureau") as of September 30, 1988, and the related statement of changes in trust fund balances for the year then ended. These financial statements are the responsibility of management of the Bureau's Branch of Trust Fund Accounting. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

This was the first known financial statement audit by independent public accountants of the Tribal and Individual Indian Monies Trust Funds managed by the Bureau, and the scope of our engagement was not sufficient with respect to the financial statements for preceding periods (from inception through September 30, 1987) to enable us to determine the propriety of trust fund balances resulting from prior activity and what portions of adjustments identified in our audit relate to prior periods. Accordingly, all adjustments to the accompanying financial statements are reflected as cumulative adjustments.

As discussed further in Notes 3, 4, 5, 7 and 10, (1) because cash and balances held in trust for Indian tribes, organizations and individuals cannot be readily confirmed, (2) because of major inadequacies in the accounting records

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and related systems used to account for the Tribal and Individual Indian Monies Trust Funds managed by the Bureau, and (3) as a result of accounting errors, including overpayments, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which (1) cash, including balances invested overnight, (2) investments at failed financial institutions, and (3) balances held in trust for Indian tribes, organizations and individuals, including unallocated balances, are stated. Investments (except for investments at failed financial institutions) and accrued interest receivable balances were stated at September 30, 1988, based on the total amounts of verifiable investments.

In our opinion, except for the effect on the statement of changes in trust fund balances of the cumulative adjustment amounts of fiscal year 1988 adjustments that relate to prior periods and except for the effect of such adjustments as might have been disclosed had we been able to perform adequate audit procedures to verify the financial elements described in the two preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Tribal and Individual Indian Monies Trust Funds managed by the U.S. Department of the Interior Bureau of Indian Affairs as of September 30, 1988, and the changes in trust fund balances for the year then ended in conformity with generally accepted accounting principles.

As discussed further in Note 10, various Indian tribes, organizations and classes of individuals have filed numerous claims against the Bureau including claims alleging failure to fulfill its fiduciary responsibilities. The outcome of these actions and the total amounts of potential claims are presently not determinable by the Bureau or the U.S. Department of the Interior Office of the Solicitor. Accordingly, the Bureau has not accrued for potential claims receivable from the U.S. Government from future funding in the Trust Funds.

As discussed further in Notes 3, 7 and 10, a significant number of Indian tribes, organizations and individual account holders, for whom the Bureau holds assets in trust, do not agree with the balances recorded in the Bureau's records. Accordingly, the balances held in trust for specific Indian tribes, organizations and individuals, and in total may differ from the recorded balances. The ultimate resolution of these matters and resulting amounts due to or due from certain specific Indian tribes, organizations and individual account holders is presently not determinable.

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**Tribal and Individual Indian Monies Trust Funds Managed by the
U.S. Department of the Interior Bureau of Indian Affairs
Statement of Assets and Trust Fund Balances
as of September 30, 1988**

	Tribal Trust	Individual Indian Monies	Total (Memorandum Only)
ASSETS:			
Cash, including balances invested overnight	\$ 47,825,471	\$ 9,695,373	\$ 57,520,844
Investments, at cost:			
Certificates of deposit	899,941,485	345,318,127	1,245,259,612
U.S. Treasury securities	112,242,323	40,031,635	152,273,958
U.S. Government Agency securities and other	121,243,243	53,470,094	174,713,337
Failed financial institutions	—	5,424,769	5,424,769
	<u>1,133,427,051</u>	<u>444,244,625</u>	<u>1,577,671,676</u>
Accrued interest receivable	27,548,025	12,270,165	39,818,190
Total	<u>\$1,208,800,547</u>	<u>\$466,210,163</u>	<u>\$1,675,010,710</u>
TRUST FUND BALANCES:			
Balances held in trust			
for Indian tribes, organizations and			
individuals, including unallocated balances	<u>\$1,208,800,547</u>	<u>\$466,210,163</u>	<u>\$1,675,010,710</u>

The accompanying notes to financial statements are
an integral part of this statement.

**Tribal and Individual Indian Monies Trust Funds Managed by the
U.S. Department of the Interior, Bureau of Indian Affairs
Statement of Changes in Trust Fund Balances
For the Year Ended September 30, 1988**

	<u>Tribal Trust</u>	<u>Individual Indian Monies</u>	<u>Total (Memorandum Only)</u>
RECEIPTS:			
Interest on invested funds-			
Overnight investments	\$ 4,362,179	\$ 862,626	\$ 5,224,805
Certificates of deposit	78,019,865	24,256,567	102,276,432
U.S. Treasury and U.S. Government Agency securities	8,020,261	8,414,768	16,435,029
Other receipts	<u>286,507,902</u>	<u>138,001,009</u>	<u>424,508,911</u>
	376,910,207	171,534,970	548,445,177
DISBURSEMENTS-			
Payments to Indian tribes, organizations and individuals	(304,651,150)	(261,362,597)	(566,013,747)
TRANSFERS TO (FROM) TRUST FUNDS, principally Tribal Distributions to Indian Tribal Members	<u>(70,027,287)</u>	<u>70,027,287</u>	<u>—</u>
Receipts greater (less) than disbursements and transfers	2,231,770	(19,800,340)	(17,568,570)
TRUST FUND BALANCES,			
September 30, 1987 (unaudited)	1,181,461,546	474,079,048	1,655,540,594
CUMULATIVE ADJUSTMENTS:			
Cash	(1,319,863)	16,930,042	15,610,179
Investments	(2,598,338)	(16,930,042)	(19,528,380)
Other assets	1,477,407	(338,710)	1,138,697
Accrued interest receivable	<u>27,548,025</u>	<u>12,270,165</u>	<u>39,818,190</u>
TRUST FUND BALANCES,			
September 30, 1988	<u>\$1,208,800,547</u>	<u>\$ 466,210,163</u>	<u>\$1,675,010,710</u>

The accompanying notes to financial statements are
an integral part of this statement.

**Tribal and Individual Indian Monies Trust Funds Managed by the
U.S. Department of the Interior Bureau of Indian Affairs
Notes to Financial Statements
September 30, 1988**

**NOTE 1
BACKGROUND AND
FINANCIAL
STATEMENT
PRESENTATIONS:**

Overview of the Bureau of Indian Affairs ("Bureau")

Formation of the Indian Trust Funds

The Legislation that authorizes the Secretary of the Interior to manage the Tribal and Individual Indian Monies Trust Funds ("*Indian Trust Funds*") gives formal recognition to the unique relationship that continues to exist between the Indian tribes and the U.S. Government. At the time the U.S. Government was founded, Indian sovereignty was recognized. Agreements between the U.S. Government and the various Indian tribes therefore took the form of treaties. During the course of the nation's history and the U.S. Government's varying policy toward Indian tribes, this relationship has retained its original sovereign characteristics.

The balances that have accumulated in the Indian Trust Funds have resulted, in part, from payments of claims against the U.S. Government and, in part, from land use agreements and oil, gas and mineral extraction from tribal and individual lands.

The Secretary of the Interior ("*Secretary*") has been designated by Congress as the U.S. Government trustee on behalf of the account holders of the Indian Trust Funds. The Secretary has, in turn, delegated authority for management of the Indian Trust Funds, including accounting and financial reporting, to the Assistant Secretary-Indian Affairs, who carries out the management of the Indian Trust Funds through the Bureau.

Organization of the Bureau

The management of the Indian Trust Funds is accomplished through a network of offices within the Bureau.

Agency Offices—The Bureau's 93 Agency Offices maintain direct contact with the tribes located throughout the United States. Generally, Agency Offices are physically located near the tribes served. The Agency Office may play a significant role in tribal affairs through assistance in financial planning, financial operations and policy and program development.

Area Offices—Each of the Agency Offices is organized under one of the 12 Area Offices. The Area Offices provide administrative and operational support for their respective Agency Offices. The Area Offices are also the key communication link between Bureau headquarters in Washington, D.C., the Central Office-West location in Albuquerque, New Mexico, and Agency Offices.

Central Office-West—The Bureau's Division of Trust Funds Management manages the investment of the Indian Trust Fund assets. Responsibility for accounting and financial reporting for the Indian Trust Funds rests with the Bureau's Branch of Trust Fund Accounting. The Division of Trust Funds Management and the Branch of Trust Fund Accounting are both located at the Central Office-West location in Albuquerque, New Mexico.

Overview of the Indian Trust Funds

The Indian Trust Funds are managed on behalf of tribes and participants.

- **Tribes**—Individual tribes maintain accounts within the Indian Trust Funds. These accounts represent investments made by the Bureau's Division of Trust Funds Management. Tribes may realize receipts from a variety of sources including land use agreements, royalties and bonuses on natural resource depletion, tribal enterprises related to trust resources, and awards of Indian claims.

- **Participants**—Participants are individuals, estates and organizations that have a fiduciary interest in the Trust Funds. Because of the nature of Indian Trust Fund assets, these interests may represent allocated or unallocated monies derived from a variety of sources. Participants may realize receipts from royalties and bonuses on natural resource depletion, land use agreements, or from enterprises having a direct relationship to Indian Trust Fund resources.

The Indian Trust Funds managed by the Bureau and included in the accompanying financial statements are the Tribal Trust Fund and the Individual Indian Monies ("IIM") Trust Fund. The accompanying financial statements do not include "public" fund entities managed by the Bureau. These include the Cooperative Fund, Alaska Native Fund, Irrigation and Power Funds and the Contributed Fund. Aggregate monetary assets (*cash, investments and accrued interest receivable*) of these public fund entities approximate \$87 million as of September 30, 1988.

Resources in the Tribal Trust Fund are invested separately in the name of each tribe. Assets are separately identified by Tribal Trust Fund account, and interest is recorded based on actual income from each investment.

IIM account holders receive an allocated portion of interest earned on the total IIM investment pool based on an estimated average return applied to each individual deposit account. Actual interest earned by the pool is then used to fund distributions to account holders semiannually. See Note 5 regarding investment balances at September 30, 1988.

A brief description of each Indian Trust Fund is provided below.

- **Tribal Trust Fund**—As of September 30, 1988, approximately 330 tribes have an interest in the Tribal Trust Fund; however, some tribes have multiple accounts. As a result, approximately 2,000 separate accounts comprise the Tribal Trust Fund. The tribes do not participate equally in the Fund; approximately 77% of the Fund assets are held on behalf of 8% of the tribes.

- **Individual Indian Monies ("IIM")**—The IIM Fund is a deposit fund, usually not voluntary, for participants and tribes. It was originally intended to provide banking services for legally incompetent Indian adults and Indian minors without legal guardians. In addition to these fiduciary accounts, the IIM Fund now contains disbursing accounts for certain tribal operations and for certain tribal enterprises. Approximately 300,000 accounts are held for participants and tribal enterprises in the IIM Fund.

Financial Statement Content

The accompanying financial statements include balances held by the Bureau in trust for Indian tribes, individuals and other organizations. The accompanying financial statements include only the balances held in trust by the Bureau for others and do not include (1) the account balances and activities of the Bureau for its own internal activities (*general appropriations, personnel and occupancy costs, etc.*), or (2) grants and contracts that are awarded by the Bureau or others to Indian tribes, organizations and individuals.

The Bureau accounts for monies held in trust beginning upon their receipt. Accordingly, receivables other than accrued interest receivable are not reflected in the accompanying financial statements. The accompanying financial statements do not include the values of Indian lands or buildings regardless of the source of funding (*Tribal monies, Congressional appropriations, Indian Trust Fund resources, etc.*). In addition, the Bureau does not have the accounting systems or personnel resources necessary to accumulate information on oil and gas and other mineral reserves held in trust on Indian lands. Such information is typically disclosed by commercial enterprises that engage in natural resource extraction activities.

Composition of Assets

Authorizing legislation and a substantial body of case law specify how the Indian Trust Fund assets should be managed and which financial instruments constitute appropriate investments for the Indian Trust Funds. Generally, Indian Trust Fund assets may be deposited in financial institutions at which such deposits are subject to Federal depository insurance, or may be invested in or collateralized by U.S. Government securities. These instruments include the following.

U.S. Treasury Issues

- Non-marketable Treasury Securities
- Marketable Treasury Securities

Certificates of Deposit

- Negotiable
- Non-negotiable

U.S. Government Agency Issues

- Government National Mortgage Association
- Federal Home Loan Mortgage Corporation
- Federal National Mortgage Association participation certificates
- Federal Housing Administration
- Farm loan bonds issued by Federal Land Banks
- Obligations of the Federal Home Loan Banks
- Debentures of the Federal Intermediate Credit Banks
- Bonds, notes and other evidence of indebtedness of the Tennessee Valley Authority
- Notes guaranteed as to principal and interest by the Small Business Administration
- Bonds or notes issued by local housing and urban renewal authorities guaranteed by the U.S. Government

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Bureau uses the cash basis of accounting for the Indian Trust Funds; however, accrual adjustments were recorded as of September 30, 1988, to reflect interest earned on an accrual basis through September 30, 1988. The Bureau is required by generally accepted accounting principles ("GAAP") for the U.S. Government, as prescribed by the General Accounting Office ("GAO"), to account for certain activities on an accrual basis. GAAP for the U.S. Government is defined by GAO's Title 2, which is generally similar to GAAP for commercial enterprises.

Trust funds are used to account for assets held for others in a trustee capacity and do not involve measurement of operations. Accordingly, the Bureau's Indian Trust Funds are utilized to account for monetary assets held by the Bureau as trustee and agent for Indian tribes, organizations and individuals. Also, Indian Trust Fund activity is analyzed in the accompanying financial statements as changes in trust fund balances. Receipts, other than interest on invested funds, which have been accrued for in the accompanying financial statements, are recorded upon their receipt because it is not practicable to measure such items prior to receipt.

Investments are stated at original cost and are not adjusted to reflect changes in market value (see Note 5). Accretion of discount/amortization of premium over the terms of the investments (as required by GAAP), rather than recording them at maturity of the related investments, which is presently the practice, would have an immaterial effect on the investment balances and receipts recorded.

**NOTE 3
ACCOUNTING
SYSTEM AND
CONTROL
WEAKNESSES:**

The accounting systems and internal control procedures utilized by the Bureau suffer from a wide variety of procedural weaknesses and other problems, such as inadequate training and supervision of personnel, and personnel shortages. Certain of these weaknesses are so pervasive and fundamental as to render the accounting systems unreliable. Some of the most significant problems are summarized below.

- a. Multiple accounting systems are used to record the same activity; however, these systems are not reconciled or kept in balance with each other or with known amounts.
- b. Certain accounting entries have been, and continue to be, prepared and posted on a decentralized basis without adequate review.
- c. Certain transactions such as certificate of deposit maturities are recorded prior to their actual occurrence.
- d. Many instances of inadequate segregation of duties exist. For example, in many locations, the same employees transfer assets among accounts and open new accounts resulting in the opportunity for intentional or unintentional misuse of resources.
- e. The Bureau does not internally prepare interim or year-end financial statements because it does not have adequate personnel resources or the necessary accounting controls and procedures to prepare financial statements in compliance with guidelines established by the Bureau, the GAO or GAAP.
- f. Detailed records do not support certain net credit asset balances and balances representing equipment and receivables. These accounts had no activity in recent years, therefore these accounts were removed from the accompanying financial statements through cumulative adjustments. Such balances were not included in balances held in trust for Indian tribes, organizations and individuals in the accompanying financial statements or in the Bureau's internal accounting records.
- g. The ultimate account holders of a portion of the resources held in trust by the Bureau have not been determined and, accordingly, such resources have not been distributed because the ownership of the land which gave rise to this income is fragmented, and the Bureau has inadequate personnel and systems to calculate the distributions.
- h. The cash account at the U.S. Department of Treasury is not verifiable due in part to inadequate Bureau procedures and also because the U.S. Department of Treasury is not able to provide the Bureau with accurate information regarding cumulative account balances (see Note 4).
- i. The Bureau's misinterpretation of Federal depository insurance coverage for certain of its investments has resulted in certain certificates of deposit held at failed financial institutions which resulted in unrecovered deposits from the applicable insurance fund (see Note 6). In addition, at September 30, 1988, there is a deficiency in collateral pledged at certain financial institutions which held deposits in excess of Federal depository insurance (see Note 5).
- j. Data processing controls throughout the Bureau cannot be relied upon to ensure that data are being properly processed. Data processing is conducted at various locations throughout the Bureau, and at certain locations, there are inadequate controls over systems and data, inadequate segregation of duties, and deficiencies in controlling systems development.

- k. Overpayments to certain Indian tribes and individuals have occurred due to misposting of receipts or other accounting errors which resulted in the balances available for distribution not being properly recorded in the Bureau's accounting records (see Note 7).
- l. Payments to IIM account holders are based in many instances on extensive manual calculations that are not reviewed or test-checked because of inadequate staffing.
- m. IIM accounts are held for the benefit of minors and other individuals who have been determined by Bureau personnel to be legally incompetent to manage their own financial affairs. Disbursements from such IIM accounts are to be made in accordance with specific guidelines and are required by Federal regulations to be made for the health, education or welfare of the beneficiary. At many Bureau locations, procedures are inadequate to ensure that such expenditures are made in accordance with applicable regulations.
- n. Many IIM account holders do not routinely receive statements of trust account balances and, accordingly, they are unaware of the status of their accounts (see Note 7).
- o. Record retention and filing procedures at certain locations throughout the Bureau and for certain periods are not sufficient to document certain activities and account balances.

As a result of the foregoing material weaknesses in internal accounting controls, it is not possible to determine whether certain financial elements reflected in the financial statements of the Indian Trust Funds are properly stated in accordance with generally accepted accounting principles. Furthermore, as a result of accounting errors, including overpayments identified to date, a significant number of Indian tribes, organizations and individual account holders, for whom the Bureau holds assets in trust, do not agree with the balances recorded in the Bureau's records. Accordingly, the Bureau's balances held in trust for specific Indian tribes, organizations and individuals, and in total, may differ from the recorded balances. In situations where resources have been paid to the incorrect tribe, organization or individual, the obligation to the actual beneficiary still remains, and a receivable from the party that received excess payment may exist.

In some cases, the Bureau has researched and corrected its balances held in trust for specific Indian tribes and individuals. In certain instances, however, such balances are disputed by the Indian tribes or individuals (see Note 7).

Management of the Branch of Trust Fund Accounting has recognized the weaknesses noted above and has taken certain corrective action and contemplates further corrective action, especially regarding those weaknesses related to multiple accounting systems and negative (debit) balances recorded in certain Tribal Trust Fund accounts. Bureau personnel and outside contractors have analyzed a significant portion of the negative account balances. Many adjustments proposed based on the analysis performed have been recorded as of March 23, 1989. The effect of these adjustments on September 30, 1988 balances has not been quantified. In addition to the analysis performed by Bureau personnel and outside contractors of negative account balances, the U.S. Department of the Interior Office of Inspector General has reviewed certain Tribal Trust Fund accounts and performed certain audit work related to the Bureau's Trust Fund assets.

The Bureau has entered into a contract with a financial institution to perform certain investment, disbursement and recordkeeping duties for the Bureau. The arrangement with the financial institution will replace and/or modify significant portions of the Bureau's present cash and investment management procedures, accounting procedures, and the extent to which the U.S. Department of Treasury is utilized by the Bureau.

Management of the Branch of Trust Fund Accounting believes that such account analysis and adjustments, and the implementation of the financial institution services referred to above will result in significant improvements in the internal control environment.

**NOTE 4
CASH,
INCLUDING
BALANCES
INVESTED
OVERNIGHT:**

The U.S. Department of Treasury functions as the "bank" and as a disbursing agent for the Bureau. Unlike a commercial bank, however, when checks are written for the Bureau by the U.S. Department of Treasury, the amounts are deducted from the Bureau's Indian Trust Funds, regardless of when (and whether) the checks written are eventually negotiated by payees. As a result, the U.S. Department of Treasury receives the benefit of using the cash between the time the check is written and when it clears the Treasury. The U.S. Department of Treasury also receives the benefit of any checks lost or not negotiated.

As discussed in Note 3, the U.S. Department of Treasury cannot readily provide an independent verification of cumulative cash balances held for the Bureau's Indian Trust Funds. In addition, if the Bureau does not provide proper notification of amounts deposited, the U.S. Department of Treasury will not pay interest on such amounts but rather will treat such amounts as uninvested (i.e., non-interest bearing). See Note 10 for further discussion regarding timely investment of funds and distribution of earnings.

As further discussed in Note 3, the accounting systems utilized by the Bureau suffer from a number of procedural weaknesses and other problems. One result of these weaknesses is that, in certain instances, amounts are not properly transferred from investments to uninvested cash at the U.S. Department of Treasury to cover disbursements. The result of amounts not being transferred or not being properly recorded in the accounting records is "overinvestments" whereby total investments exceed amounts available for investment. The amount of overinvestment interest earnings has not been quantified.

**NOTE 5
INVESTMENTS:**

Interest Earned

Following are weighted average interest rates obtained on Indian Trust Funds for the year ended September 30, 1988, as reported by the Bureau's Division of Trust Funds Management.

	U.S. Treasury Securities, U.S. Government Agency Securities and Other Investments, Including Balances Invested Overnight	Certificates of Deposit	All Investments
Tribal Trust	7.95%	8.03%	8.01%
Individual Indian Monies	7.68%	8.35%	8.20%

Insurance Coverage and Pledged Securities

The following is an analysis of depository insurance and collateral on certificates of deposit at September 30, 1988.

Certificates of deposit	\$1,245,259,612
Less-Depository insurance	992,579,285
Uninsured balance	252,680,327
Uninsured balance covered by securities pledged as collateral	239,505,525
Uninsured, uncollateralized balance	\$ 13,174,802

Maturities

Investments, excluding those with failed financial institutions (see Note 6), are scheduled to mature as follows.

Fiscal Years Ended September 30	U.S. Treasury Securities, U.S. Government Agency Securities and Other	Certificates of Deposit	All Securities
1989	\$122,654,194	\$ 917,265,601	\$1,039,919,795
1990	43,303,815	296,052,028	339,355,843
1991	39,819,598	23,121,983	62,941,581
1992	—	8,820,000	8,820,000
1993 and thereafter	121,209,688	—	121,209,688
	<u>\$326,987,295</u>	<u>\$1,245,259,612</u>	<u>\$1,572,246,907</u>

The cost, par value and market value of U.S. Treasury securities and U.S. Government Agency securities and other investments at September 30, 1988, are as follows.

	Tribal Trust		
	Cost	Par Value	Market Value
U.S. Treasury securities	<u>\$112,242,323</u>	<u>\$112,475,000</u>	<u>\$111,111,740</u>
U.S. Government Agency securities and other	<u>\$121,243,243</u>	<u>\$121,439,987</u>	<u>\$121,785,178</u>
	Individual Indian Monies		
	Cost	Par Value	Market Value
U.S. Treasury securities	<u>\$ 40,031,635</u>	<u>\$ 40,000,000</u>	<u>\$ 38,832,873</u>
U.S. Government Agency securities and other	<u>\$ 53,470,094</u>	<u>\$ 53,234,946</u>	<u>\$ 52,698,168</u>

One Agency Office is permitted by law to invest IIM resources in other assets (corporate stocks, annuities and similar items) as directed by the individual account holders. As of September 30, 1988 \$1,312,077 of various investments, at cost, are held by this Agency Office. These investments are included in U.S. Government Agency securities and other investments in the accompanying financial statements.

**NOTE 6
INVESTMENTS
AT FAILED
FINANCIAL
INSTITUTIONS:**

The Bureau invested IIM resources in excess of the insured limits of the National Credit Union Administration at the following credit unions.

	<u>Date Failed</u>	<u>Amount</u>
Oak Park Community Credit Union	March 1984	\$1,497,752
Zionic Federal Credit Union	June 1984	3,228,059
Center Place Savings Credit Union	July 1985	677,226
Financial Services Credit Union	October 1984	21,732
		<u>\$ 5,424,769</u>

The Bureau's investment policies are designed to ensure the recovery of all amounts invested in financial institutions that fail, either from the applicable Federal deposit insurance fund or from liquidation of pledged collateral. Certain investments in certificates of deposit were not recovered due to a misinterpretation of insurance coverage provided by the National Credit Union Administration. The Bureau continues to reflect these amounts in investments because the obligation remains to the Indian tribes or individuals for which the investments were made and because appropriated funds have not been authorized to cover these losses (see Note 10).

**NOTE 7
TRUST FUND
BALANCES:**

A summary of amounts included in the balances held in trust for Indian tribes, organizations and individuals, including unallocated balances follows.

	<u>Tribal Trust</u>	<u>Individual Indian Monies</u>
Balances identified to specific accounts, including accounts for which the ultimate beneficiary is undetermined	\$1,170,147,647	\$429,214,300
Accrued interest	27,548,025	12,270,165
Unallocated balances, net	<u>11,104,875</u>	<u>24,725,698</u>
Balances held in trust for Indian tribes, organizations and individuals, including unallocated balances	<u>\$1,208,800,547</u>	<u>\$466,210,163</u>

Disputed Balances and Beneficiaries Unable to Confirm Balances and Similar Matters

A portion of the Indian tribes, organizations and individuals for whom the Bureau holds assets in trust do not receive adequate information to determine whether their account balances reflected in the Bureau's records are proper. In addition, certain account holders do not agree with the balances reflected in their accounts.

A significant number of IIM accounts, which represent a significant portion of the IIM balances, are held for the benefit of minors and other individuals who have been determined to be legally incompetent to manage their own affairs. The Bureau typically does not give minors and incompetent individuals complete access to their account balances or activity and, accordingly, such account holders would not be able to determine if their account balances are proper.

As discussed in Note 3, the ultimate account holders of a portion of the monies held in trust in the IIM Trust Fund by the Bureau have not been determined and, accordingly, such monies have not been distributed. Also, included in the Tribal Trust Funds are certain balances not identified to specific tribes because certain judgement awards were granted to several Indian tribes in a particular geographic area for settlement of claims related to certain lands.

Unallocated Balances, Net

The Tribal and IIM Trust Fund financial statements include certain unallocated balances as of September 30, 1988, a portion of which represents interest receipts not allocated to specific accounts. Overnight investment interest on the Tribal Trust Funds cash balances invested overnight has not been distributed since June 1986. As of March 23, 1989, the Bureau was in the process of calculating a partial distribution of overnight interest receipts for the period from January 1, 1987, through February 28, 1989. The amount of interest receipts (*included in unallocated balances, net*) for the six-month period ended September 30, 1988, which was distributed to IIM account holders subsequent to September 30, 1988, was \$19,574,857. The Bureau estimates that unallocated interest related to distributions of royalties by the U.S. Department of the Interior Minerals Management Service is approximately \$500,000 for the period from November 1, 1985, through September 30, 1988.

A portion of the unallocated balances may represent earnings from overinvestments (*see Note 4*), in which case, such amounts would be payable to the U.S. Department of Treasury. In addition, the total amount allocable to account holders may ultimately exceed the balances reflected in the accompanying financial statements due to misallocated interest and other receipts (*see Note 10*), such difference could give rise to potential claims receivable from the U.S. Government from future funding.

NOTE 8 RECEIPTS:

Receipts are not segregated by source for the IIM Fund. Oil and gas royalties and bonuses included in other receipts in the Tribal Trust Fund totaled \$168,883,892 for the year ended September 30, 1988.

NOTE 9 SIGNIFICANT TRANSACTIONS WITH OTHER U.S. GOVERNMENT ORGANIZATIONS:

Debt Arrangements

The Bureau is a party to various notes payable agreements. These agreements are primarily between the Indian tribes and the U.S. Department of Agriculture Farmers Home Administration ("FmHA") or the U.S. Department of Commerce Economic Development Administration (EDA). The proceeds of the FmHA loans are used by Indian tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The receipts from the acquired ownership interests are deposited into "Special Deposit" accounts in the IIM Trust Fund, and the principal and interest payments are made from these accounts. EDA loans are utilized for construction of tribal facilities (*governmental/administrative buildings and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.*). The Bureau is not directly liable for the payments on these loans and, accordingly, such loans are not recorded in the accompanying financial statements.

Minerals Management Service

The Bureau receives cash from the U.S. Department of the Interior Minerals Management Service ("MMS") for royalties collected on behalf of various Indian tribes and Indian individuals, except for the Osage Tribe which receives payments directly from private companies into the Bureau's Indian Trust Funds. The Bureau then distributes the royalties to trust account holders. MMS and the U.S. Department of the Interior Bureau of Land Management both perform certain auditing and other monitoring procedures of oil and gas and other mineral royalties collected.

In addition, the Bureau's Branch of Trust Fund Accounting has recently used an outside contractor to perform certain audit procedures to verify the distribution of royalties.

In certain situations, overpayments are made by private companies to MMS that are then paid to the Bureau on behalf of Indian tribes and Indian individuals, which are then disbursed by the Bureau to beneficiaries. These overpayments result from payments being made based on estimated mineral production. Such overpayments are recovered by the private companies by reducing future payments (*until the overpayment is recouped*) by up to 50% for Indian individuals and up to 100% for Indian tribes. The amount of such overpayments, at September 30, 1988, has not been quantified.

Other

As discussed in Note 4, the U.S. Department of Treasury functions as the "bank" and as a disbursing agent for the Bureau. As discussed in Note 10, the U.S. Department of the Interior Office of the Solicitor serves as legal counsel for the Bureau.

NOTE 10
COMMITMENTS AND
CONTINGENCIES:

Fiduciary Responsibilities

The Secretary is responsible for investing resources held in trust to maximize the earnings while minimizing risk. The Secretary is also responsible for collecting all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, and disbursing such monies collected to the appropriate beneficiaries.

Tribal organizations and classes of Indian individuals have filed numerous claims against the Secretary for failure to fulfill its fiduciary responsibilities. The outcome of these actions and the total amount of potential liability is presently not determinable.

The U.S. Department of the Interior Office of the Solicitor ("Solicitor") acts as legal counsel for the Bureau. The Solicitor has indicated that the sheer volume of Indian Trust Fund accounts preclude a complete detailing of all possible existing or potential claims which do or might relate to these trust accounts.

Liabilities resulting from the Bureau's failure to properly manage the Indian Trust Funds must be satisfied with appropriated U.S. Government funds. The Bureau and the Solicitor have not quantified the amounts of potential liability and, accordingly, no amounts have been accrued for potential claims receivable from U.S. Government from future funding in the Indian Trust Funds.

IMPL Funds

Through the late 1970's, and later in certain instances, monies were deposited into the "Indian Monies, Proceeds of Labor" ("IMPL") Trust Funds to finance schools and other services for Indians. The sources of this money were primarily charges for Bureau services provided to Federal and non-Federal recipients, and interest from invested balances. By 1980, and prior in certain instances, these activities were funded by direct Congressional appropriations.

A portion of these resources were utilized by the Bureau in prior years as reimbursement for administrative expenses incurred in determining ownership of the resources pursuant to Federal regulations. A significant portion of these resources were distributed to identified beneficiaries. Approximately \$1,500,000 is being held in escrow for potential beneficiaries by the U.S. Government and is not reflected in the Bureau's Trust Funds.

A class action suit has been filed on behalf of various Indian tribes and individual Indians who had interests relating to IMPL account balances. The United States Claims Court authorized discovery on these issues on March 1, 1988, for class certification purposes. The outcome of this class action suit is presently not determinable.

Timely Investment of Funds and Distribution of Earnings

Balances invested overnight are intended to represent all monies held by the Bureau not invested in specific investment securities (*i.e., certificates of deposit, U.S. Treasury securities, etc.*). During the period from July 1, 1986, through December 31, 1986, the Bureau deposited certain monies with the U.S. Department of Treasury that were not formally invested in the U.S. Department of Treasury's overnight investment program due to improper reporting of cash balances to the U.S. Treasury. The Bureau estimates that the interest that would have been earned by the Tribal Trust Fund on these balances would have approximated \$2,000,000. Due to the problems associated with balances invested overnight, the Bureau has not distributed interest earned by the Tribal Trust Fund on such balances invested overnight since June 1986 (*see Note 7*). The Bureau's fiduciary responsibility is to invest monies held in trust to maximize earnings while minimizing risk and, accordingly, there is potential that trust fund balances have been understated for this loss of interest income. The outcome of this matter is presently not determinable and the Bureau has not accrued for potential claims receivable from U.S. Government from future funding in the Trust Funds.

Potentially Misallocated Interest Earnings

The Bureau's interest earnings allocation procedures on IIM Trust Fund investments to individual IIM accounts have resulted in certain IIM accounts receiving amounts that differ from their pro rata share of the investment earnings. Possible disproportionate earnings sources include untimely allocation of certain receipts and account balances below a certain threshold level which do not receive interest income.

No estimates have been quantified for potential misallocated interest related to untimely allocations of certain other receipts and account balances below the minimum balance requirement to receive interest. The Bureau has not accrued for potential claims receivable from U.S. Government from future funding in the Indian Trust Funds.